



**Ph.d. project description: National management and local spending priorities and organization under fiscal stress - the case of local governments in Denmark**

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## **Application for PhD scholarship at the Department of Political Science University of Copenhagen – Søren Foged**

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## **1. Name of the applicant**

Søren Kjær Foged

## **2. Are you applying for the 5+3 or the 4+4 PhD study program?**

5+3 PhD study program

## **3. Supervisor / suggested supervisor**

Confirmed supervisor is Professor Hanne Foss Hansen

## **4. A short summary of the proposed research project (maximum: 1,200 characters incl. spaces)**

The general theme of this research project is Danish municipalities under fiscal stress where two main perspectives can be distinguished. First, from a central government perspective an economic downturn should increase the need for fiscal control and any implications to the government's management of the municipalities are therefore of interest. Second, from a municipal perspective fiscal stress necessitates tough spending priorities and organizational responses to financial management which in turn can affect user groups and municipal employees. The project addresses these themes in three subprojects dealing with first the national government's management of the municipalities (subproject 1), second the municipal spending priorities (subproject 2) and third the municipalities' organizational responses to the crisis (subproject 3).

The project uses a number of research methods chosen with the subprojects' research question in mind (see figure 11.1 in the appendix for an overview). Subproject 1 will mainly be investigated through interviews and document analysis, subproject 2 will chiefly be examined via statistical regressions and finally, project 3 will be analyzed through a survey and in-depth case studies in 6 municipalities.

## 5. Purpose of the research project (maximum: 1,200 characters incl. spaces).

The project's general purpose is to investigate how Danish municipalities and the government's management regime of the municipalities responded to the economic downturn in the period from 2007 to 2013. This question is addressed by the subprojects below.

- Subproject 1: The (changing) policy context of the municipalities 2007-2013. The purpose of this subproject is to detect *whether* and *how* the economic crisis led to changes in the management regime that coordinates the municipalities' economic policies with the government's fiscal objectives. Also, the subproject is a precondition for the other projects by examining changes to the institutional context of municipal decision-making.
- Subproject 2: The spending priorities within the municipalities 2007-2013. This subproject deals with municipal spending priorities under fiscal stress. The purpose is to investigate which policy areas, spending categories and municipal employees that were hit by the economic downturn and to test explanatory variables.
- Subproject 3: Changes to public management within the municipalities 2007-2013. The purpose of this subproject is to investigate a possible association between fiscal stress and changes to the municipalities' organization of financial management.

## 6. Background (maximum: 6,000 characters incl. spaces).

### 6.1 The economic crises and the Danish municipalities

Denmark was hit relatively hard by the financial crisis in 2007 in the sense that the financial crisis was relieved by a lasting economic downturn. As an example the decline in GDP growth rates of nearly 6.3% in 2008 and 2009 were among the highest in the OECD (Hansen & Kristiansen 2012). As local governments are responsible for around half of all public expenditures, the 98 municipalities have considerable influence on total public spending in Denmark and in particular spending priorities related to user groups and municipal employees (Juul 2006). With the municipal reform in 2007, the number of municipalities were reduced from 271 to 98 and even more tasks were transferred to the local government level making the municipalities responsible for public services such as child care, public schools, elderly care, the social area, culture and active employment policies as well as more technical tasks such as local roads, environmental protection and urban planning (Økonomi- og Indenrigsministeriet 2013: 43-44). The financial autonomy of the municipalities is related to both a revenue side and an expenditure side. With respect to the revenue side roughly three quarter of the municipal revenue stems from municipal taxation and user fees, while one quarter comes from government grants and equalization schemes as well as government reimbursements (Blom-Hansen & Serritslew 2008: 154). It has been argued that the municipalities' autonomy to set their own tax rate has been restricted over the economic crisis since the imposition of sanctions to tax increases has resulted in a situation where the municipalities will not lower taxes fearing that they cannot raise taxes again without sanctions (Christensen et al. 2011: 115, Blom-Hansen 2012). On the spending side, however, the municipalities have kept considerable autonomy due to the fact that municipalities within the general legislation have great discretion in prioritizing between spending areas.

In sum, as the economic downturn resulted in tighter limits to municipal expenditures given in the annual economic agreement with the national government, the local governments had to implement budget cuts/adjustments since increasing taxes was not an option. Tangible implications to these spending cuts have already been documented. For instance, the net service expenditures in the

municipalities decreased with 3.6% from 2009 to 2011 (Økonomi- og Indenrigsministeriet 2013: 60). In 2012 the national institute of research on municipalities and regions, KORA, estimated that the municipalities had to reduce their service expenditures in 2012 with 6 billion DKK compared to the 2009-level corresponding to yearly budget cuts of 20 million DKK in the average municipality (Houlberg & Wier 2012).

## **6.2 Published literature on the research project.**

This PhD-project takes as the point of departure the empirical and theoretical literature on cutback management. This literature stems from the economic downturn in the 1970s and 1980s, but experienced a rebirth with the financial crisis and subsequent global economic recession beginning in 2007. Among the most prominent of these 'old' contributions to the cutback management literature is Beck-Jørgensen's theory on cutback strategies (Beck-Jørgensen 1981: 154). Beck-Jørgensen hypothesizes that the duration and severity of the economic recession will affect the employed cutback strategies, so that organizations at a start will adopt incremental strategies by for instance delaying maintenance work and implementing across the board cuts. However, as the crisis continues the incremental strategy gives too many problems to the functioning of the organization and a management phase is entered in which the organization tries to minimize internal slack and rationalize relations to external actors. Yet, in the end no more slack is available and a strategic phase has to be adopted involving tough prioritizations between policy areas. In another main study within the 'old' cutback management literature dealing with cutbacks in the British government administration from 1975 to 1985, Beck-Jørgensen's theory was partly confirmed (Dunsire & Hood 1989). With respect to Danish municipalities, Mouritzen investigated municipal spending under fiscal stress from 1982 to 1986 and found that total expenditures on child care, public schools and elderly care adjusted to changes in objective needs under fiscal stress whereas incremental explanations dominated under more favorable economic conditions (Mouritzen 1991, Beck-Jørgensen & Mouritzen 2005: 148).

The recent literature on cutback management after the economic recession has so far contributed with both theoretical (Pollitt 2010, Peters et al. 2011) and empirical insights. A recent literature review identifies seven empirical studies dealing with cutback strategies after the financial crisis (NGA & NASBO 2010, Bideleux 2011, Raudla & Kattel 2011, Kattel & Raudla 2012, Kickert 2012, Raudla 2012) all of them investigating cutback responses at the national government level (Randma-Liiv 2013: 50-51). By now, two Danish contributions to the cutback management literature can be identified (Hansen & Kristiansen 2012, Davidsen & Jensen 2012) where the article by Hansen & Kristiansen is of particular interest since a new typology of cutback strategies is presented. However, also the two Danish studies are conducted at the national government level and a local government focus is therefore relevant since local government spending makes up a considerable part of public spending in many countries and since local governments from a methodological point of view involves many and homogenous cases.

## **7. Project description (maximum: 16,000 characters incl. spaces).**

### **7.1 Introduction**

In the following sections, the three subprojects are described in detail.

### **7.2 Subproject 1: The (changing) policy context of the municipalities 2007-2013**

#### **7.2.1 Research question, background and contributions**

The purpose of subproject 1 is to detect possible implications of the economic crisis to the management regime by which the national government governs the municipalities. The following research question is addressed:

How, if at all, has the national government's management of the municipalities changed during the economic downturn and what have been the drivers behind these changes?

The background for the research question is the changes by law in 2008 and 2012 to the management regime. The economic policy of the municipalities is embedded in an institutional framework where the annual economic agreement between the government and the organization of municipalities, Local Government Denmark (LGDK), plays a key role. The annual agreement is a non-legal document setting targets for the collective municipal spending on services and capital investments as well as the tax rate. The annual agreement covers all 98 municipalities (Juul 2006). In 2008 a bill was passed imposing individual sanctions for increasing taxes without government permission and collective sanctions for exceeding the agreed target for service expenditures and capital expenditures. This was followed by a budget law in 2012, where the national government for a continuous 4 year period starting in 2014 would set legal ceilings for the municipal service expenditures and give the national government the right to impose individual sanctions for budget overruns related to the service expenditures (Finansministeriet 2012).

In answering the research question several contributions are made. First, the question links to international theories on cutback management that predicts that economic downturns are associated with centralization of decision making processes of economic policy. However, most of this literature deals with decision making at either the national or local government level (Randma-Liiv 2013: 24-27), while this subproject deals with management issues from one government level to another. Second, the subproject also contributes to the literature on institutional change (Mahoney & Thelen 2010). Thirdly, an assessment of how potential changes in the management regime affect municipal autonomy contributes to existing Danish literature (Blom-Hansen 2012).

#### **7.2.2 Theoretical approach and hypotheses**

The theoretical approach combines cutback management literature with theories of institutional change. Centralization of economic decision-making processes is a key prediction from the cutback management literature (Bozeman 2010, Peters et al. 2011). In order to examine the prediction in more detail the theoretical framework draws upon insights from rational choice institutionalism and historical institutionalism. The provisional hypotheses are:

- H<sub>1</sub>: The national government increases its management capacity towards local governments under fiscal stress.

- H<sub>2</sub>: Changes to the management regime were made possible by the economic downturn.

### 7.2.3. Research methods and data

The first part of subproject 1 is to detect *whether* and *how* the economic crisis led to institutional changes in the management regime. This issue is illuminated via in-depth interviews with government officials from the ministry of finance and ministry of economic affairs and the interior as well as representatives from LGDK who were involved in the imposition of sanctions in 2008 and 2012. Since the purpose is to examine processes of change a process tracing logic is applied where events, official documents and minutes are examined in order to render probable the chain of events resulting in the laws.

### 7.2.4 Possible findings and limitations

A possible finding of the subproject is to establish or reject a link between the economic downturn and changes to the management regime, but this task is also a main methodological challenge. The challenge is therefore addressed by a process tracing approach where enough data is gathered to fill in all possible holes in the chain of events leading up to the institutional changes in 2008 and 2012.

## 7.3 Subproject 2: The spending priorities within the municipalities 2007-2013

### 7.3.1 Research question, background and contributions

Subproject 2 deals with the internal spending priorities of the municipalities under fiscal stress. The following research question is addressed

How did the economic downturn affect the spending priorities within the municipalities and which factors explain these priorities?

The background of the research question is the significant decline in overall municipal service expenditures since 2009 (Houlberg & Wier 2012, Økonomi- og Indenrigsministeriet 2013). The research question is relevant since it detects winners and losers from municipal spending policies. Moreover, the analysis touches upon important aspects of economics since long-term welfare can be affected by short run spending priorities. For instance, a short run neglect of maintenance expenditures can increase total capital expenditures in the long run. Lastly, the investigation contributes to the cutback management literature by providing new knowledge and using statistical research methods on high quality data.

### 7.3.2. Theoretical approach and hypotheses

The theoretical approach combines cutback management literature and theories on budgeting. Budgeting theories have generic features and are therefore supplemented with insights from cutback management predicting how a situation of fiscal stress can mediate effects proposed by the budgeting theories (Beck-Jørgensen & Mouritzen 2005: 129). Three different schools can be distinguished within the budgeting literature giving different predictions on the municipal spending decisions; incrementalism, a demand-oriented perspective and a supply-oriented perspective (Beck-Jørgensen & Mouritzen 2005, Pallesen 2008). Incrementalism predicts that budget expansions as well as budget cuts are followed by a fair share principle, where last year's budget provides the baseline for across the board cuts or expansions (Caiden & Wildavsky 2004). The demand oriented



explanations emphasize voter preferences and objective needs and resources in the political system's external environment (Downs 1957). Finally, the supply oriented perspective looks for explanations within the political system, in particular focusing on the objectives of politicians, municipal employees and user groups (Dunleavy 1991, Serritslew 2005). The theories provide the backdrop for explanatory variables to be tested and controlled for such as the growth trend in last year's budget, changes to the municipal revenue and expenditure need, local voter preferences, the politicians' ideology and the electoral clout of municipal employees and user groups.

The literature on cutback management supplements this generic approach with context-sensitive predictions on how fiscal stress affects spending priorities. First of all the literature emphasizes the role of *time* in the sense that the longer the period of fiscal stress the more (local) governments will substitute across the board cuts with targeted cuts. Second, the *severity* of fiscal stress should also play a role in the sense that a higher degree of fiscal stress should increase the use of targeted cuts (Randma-Liiv et al 2013: 10). The provisional hypotheses are:

- H<sub>1</sub>: Incrementalism explains municipal spending priorities under fiscal stress
- H<sub>2</sub>: Demand side factors explain municipal spending priorities under fiscal stress.
- H<sub>3</sub>: Supply side factors explain municipal spending priorities under fiscal stress.
- H<sub>4</sub>: Factors related to the degree and duration of fiscal stress mediates spending priorities under fiscal stress

### 7.3.3 Research methods and data

The applied research methods will mainly be quantitative approaches on municipal accounting data from 2007 to 2013. Correlations found in the statistical analysis will afterwards be examined in more detail in the case studies.

At first descriptive statistics is provided in order to examine yearly spending developments in the following explanatory variables; i) development in total service expenditures, ii) spending developments in different expenditure categories such as operational expenditures on personnel costs, operational expenditures on non-personnel costs, capital investments and program expenditures, iii) spending developments in different policy areas. Whenever possible, a further split will be made between the normal and specialized area since it can be hypothesized that spending cuts have been more extensive in the specialized area and iv) developments in the numbers of municipal employees with respect to different sectors, professions and educational backgrounds.

Secondly explanations behind changes in these dependent variables are tested by various regression analysis techniques such as pooled regression with year-dummies, first differences measuring changes in the dependent variables to changes in the independent variables etc. An important aspect of the research question relates to whether explanations behind spending priorities differ under fiscal stress compared to a 'normal' state. This can be tested due to variation in the degree of fiscal stress among the municipalities within the main period of analysis from 2007 to 2013. However, a further test will be provided by extending the period of analysis to the time before the crisis (resulting in a period of analysis from 2000 to 2013) for municipal services that did not change as a consequence of the municipal reform in 2007.

### 7.3.4 Possible findings and limitations

Possible findings are related to spending effects for policy areas, spending categories and municipal employees. It is possible that policy areas with strong user groups and strong municipal employees



can resist spending cuts and maybe this logic applies to a distinction between the normal and specialized area.

Limitations to the subproject are especially linked to the challenge of distinguishing the effects from the included explanatory variables, such as fiscal stress, from any after-effects from the municipal reform in 2007. I deal with this challenge firstly by statistically controlling for whether or not the municipality was amalgamated in 2007, secondly by extending the period of analysis for comparable services to 2000-2013 and finally by selecting both merged and unmerged municipalities for the in-depth case studies (further information on selection of the 6 municipalities is provided in figure 11.1 in the appendix).

## 7.4 Subproject 3: Changes to public management within the municipalities 2007-2013.

### 7.4.1 Research question, background and contributions

The final subproject deals with possible response to financial management within the municipalities. Hence, the research question is:

How has the economic downturn, if at all, affected the organization of the municipalities' financial management?

The background to this question is an increased focus on municipal financial management, in particular how different organizational structures affect the municipalities' economic management under fiscal stress. Hence, it is assumed that both the political and administrative organization play a role (Krevi 2009, Krevi 2012).

The relevance of the research question relates to a main objective within political science to illuminate changes to organization and therefore changes to power relations. Moreover, the contribution to the cutback management literature is to detect organizational changes with relevance for the *decision* and *implementation* of cuts under fiscal stress. Finally, the contribution to the Danish literature is to treat the municipalities' organization of financial management as a dependent variable, since existing literature has mainly treated organizational features as an independent variable predicting budget discipline (Blom-Hansen 2002, Serritslew 2005).

### 7.4.2 Theoretical approach and hypotheses

The theoretical approach rests on insight from the cutback management literature (Hansen & Kristiansen 2012, Liiv-Randma et al. 2013). Two main predictions can be deduced from the cutback management literature with relevance for both the decision and actual implementation of cuts. Thus, with respect to municipal decision-making a key prediction is that fiscal stress should lead to more top-down budgeting with the strengthening of political and administrative financial guardians (Schick 2009). At the same time, however, it is hypothesized that the actual implementation of cuts requires increased managerial flexibility at decentralized levels (Randma-Liiv et al. 2013: 30. Thus, the provisional hypotheses are:

- H<sub>1</sub>: Local governments increasingly organize *budgeting decisions* in a top-down way under fiscal stress
- H<sub>2</sub>: Local governments increase managerial flexibility at the decentralized levels when it comes to the *implementation* of cuts under fiscal stress.

### 7.4.3 Research methods and data

The methodological approach combines qualitative and quantitative techniques. Firstly, the research question is answered by the 6 in-depth case studies where key municipal politicians, the chief executive, the head financial manager and possibly selected managers at the decentralized levels are interviewed (figure 11.1 in the appendix provides further information on selection issues).

Moreover, as part of the case studies various official documents are analysed in the period from 2007 to 2013 such as budget agreements, minutes from discussions in the municipal councils and administrative notes. Secondly, the case studies are complemented by a survey to all chief executives and financial managers asking to organizational responses to the fiscal stress.

### 7.4.4 Possible findings and limitations

Several findings are possible. Maybe decision-making processes related to the budget has indeed been organized in a more top-down fashion where political and administrative financial guardians have been strengthened, and maybe the need for tough spending priorities increases the power of the local politicians relative to administrators.

However, a key limitation is to detect the ‘true’ explanations behind organizational changes. How do we render probable that fiscal stress actually contributed to the reorganization of financial management and where not driven by other factors such as for instance parallel changes to the government’s management of the municipalities?

## 7.5 The final product

Together the three subprojects make up the PhD-project. The final product will be discussed with supervisor Professor Hanne Foss Hansen in the beginning of the PhD period and can consist of both a number of articles and/or a monograph. A tentative structure of the monograph is illustrated below.

### 7.5.1 Tentative dissertation structure

<b>Possible title: National management and local spending priorities and organization under fiscal stress - the case of local governments in Denmark</b>	
Part 1 - Introduction and theoretical framework	Chapter 1: Introduction  Chapter 2: A general theoretical framework
Part 2 – The national management of local governments under fiscal stress	Chapter 3: Literature review (issues of context, methodology and data)  Chapter 4: The national management of local governments in Denmark under fiscal stress  (and/or 1 article)
Part 3 – The spending priorities of local governments under fiscal stress	Chapter 5: Literature review (issues of context, methodology and data)  Chapter 6: The spending priorities within local governments in Denmark under fiscal stress  (and/or 2 or 3 articles)
Part 4 – Changes in public management within local	Chapter 7: Literature review (issues of context, methodology and data)

governments under fiscal stress	Chapter 8: The changes in public management within local governments in Denmark under fiscal stress  (and/or 1 article)
Part 5 - Discussion	Chapter 9: Discussion - national management and local priorities under fiscal stress  Chapter 10: Conclusion

## 8. Preliminary study plan and organization (maximum: 2,400 characters incl. spaces).

The preliminary study plan is illustrated in the figure below (see figure 11.1 in the appendix for further information on data collection related to the subprojects). I plan to finish subproject 1 in the spring 2014, subproject 2 in the autumn 2014 and subproject 3 in the spring 2015. Moreover, a number of parallel activities are planned, in particular courses on advanced quantitative research methods and a research semester abroad preferable at an American University or at Oxford University following Professor Christopher Hood's research on cutback management. The project fits well with the ongoing public administration research at the department of political science. Thus, suggested supervisor Hanne Foss Hansen heads a research project on cutback management and has published on the issue with Mads Kristiansen, while other departmental scholars are also involved in the project such as Caroline Grøn, Gunnar Gjelstrup and Eva Sørensen. Furthermore, from a methodological point of view the PhD-project can take advantage of a growing quantitative research environment at the department.

### 8.1. Preliminary study plan

	Summer 2013	Autumn 2013	Spring 2014
Research activity	Project adjustments	Pilot interviews.  Literature review on all three subprojects.  Product: Part 1 of the dissertation: introduction and theoretical framework (50 pages).	Interviews related to subproject 1, survey to all municipalities.  Collection of already available quantitative data related to subproject 2.  Product: Reporting for subproject 1 (part 2 of the dissertation, 60 pages) and/or 1 article.
Other activities		Course on advanced quantitative research methods	Teaching (methods in social science 2, general political science or graduate course)

	Summer 2014	Autumn 2014	Spring 2015
Research activity	Course on advanced quantitative research methods.	Data analysis and reporting for subproject 2.  Product: Reporting for subproject 2 (part 3 of the dissertation, 90 pages) or 2 / 3 articles.	Conduction of case-studies in 6 municipalities  Data analysis and reporting for subproject 3.  Product: Reporting for subproject 3 (part 4 of the dissertation, 60 pages) and/or 1 article
Other activities		1 research semester abroad	Teaching (methods in social science 2, general political science or graduate course)

	Summer 2015	Autumn 2015	Spring 2016
Research activity		Revision to all three subprojects.	Buffer

		Discussion and conclusion.  Product: Part 5 of the dissertation: discussion and conclusion (40 pages).	
Other activities		Teaching (national public administration, comparative politics or graduate course)	

## 9. Estimated budget (in DKK or EUR).

The PhD-project is not expected to involve major expenses due to field work. With respect to the part of subproject 2 that deals with implications for municipal employees, data can be provided through the municipal payment office. However, it can be of relevance for subproject 2 to apply for funding for detailed register data on municipal employees available from Statistics Denmark.

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## 11. Appendix

### 11.1 Overview of data collection related to the three subprojects

	Main purpose	Project 1	Project 2	Project 3	Time of collection
<b><i>Own data collection</i></b>					
Phase 1: Pilot interviews with municipalities, LGDK and government officials	Gather background information on all three subprojects	-	-	-	Autumn 2013
Phase 2: In-depth interviews with government officials and representatives from LGDK	Gather information on the national government's management of the municipalities and to detect any changes during the economic downturn	++	-	-	Autumn 2013
Phase 3: Survey to all municipal chief executives and financial managers	Gather general information on financial and organizational responses within the municipalities during the economic downturn	+	+	++	Spring 2014
Phase 4: In-depth case studies within 6 municipalities	Gather detailed information on the financial and organizational responses during the economic downturn. The 6 municipalities are selected to secure variation in terms of fiscal stress, population size whether or not the municipality was merged in 2007, ideological composition of the city council and political and administrative organization.	+	+	++	Spring 2014
<b><i>Already available data</i></b>					
The municipalities' budgets and accounts	Provide information on spending priorities in the municipalities with respect to sectors and spending categories	+	++	+	Spring 2014



The municipalities' payment office	Provide information on spending priorities with respect to municipal employees	-	+ +	-	Spring 2014
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Two crosses (+ +) indicate that the data is of primary relevance to the subproject. One cross (+) indicates that the data is of secondary relevance to the subproject, while a horizontal line (-) represents data to provide background information.